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April 22, 2021

**Statement by Ms. Senich and Ms. Robitaille on Kiribati
(Preliminary)
Executive Board Meeting
April 26, 2021**

We thank staff for their report and Mr. Huh and Mr. Yoo for their very informative Buff.

We commend the authorities for quickly imposing appropriate safety and travel restrictions and taking other social distancing steps early in the pandemic, as these responses, combined with the country's geographic isolation from major population centers, resulted in no recorded Covid-19 cases. The pandemic nonetheless left a major imprint on economic activity, with growth essentially coming to a standstill last year. Further, economic recovery appears to be proceeding slowly, held back in part by the social distancing restrictions, the practical difficulties of vaccinating the adult population, and challenges in the health system that pre-dated the pandemic. We agree with staff's overall analysis.

We urge the authorities to use the crisis as an opportunity to strengthen the fiscal framework. We commend that the authorities introduced a rules-based approach to managing the sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), with support from the World Bank. Nevertheless, other areas of fiscal management are worrisome. As the economy emerges from the pandemic, we note staff's emphasis on the need to embark on fiscal consolidation. Yet unemployment benefits and other social transfers will either remain high or will increase in coming years as part of the Covid crisis response. We also find it troubling that the authorities plan to double copra production subsidies, as staff have noted in past reviews that copra production is not the country's comparative advantage. Higher subsidy costs risks crowding out future, necessary spending on major investments in infrastructure, including investment aimed at addressing climate change-related risks. *Staff comments are welcome.*

We echo staff's advice on broadening the revenue base. We welcome the authorities' 2014 VAT reform, which has provided a stable source of revenue and note the authorities' intent to explore new sources of non-tax revenue, including through deep-sea mining. We concur with staff's recommendation to take a cautious approach to developing deep-sea mining given the uncertain environmental impacts. *Could staff comment on whether Kiribati would benefit from further technical assistance, including through the IMF's regional technical assistance center, with the goal of balancing environmental and revenue goals with respect to non-tax revenue management as noted in Annex III?*

We support's staff call for continued technical assistance to help address major gaps in the provision of data. We note that the most recent data on internet usage is for 2015 and on financial inclusion is for 2013. *We would appreciate staff providing more details on the most pressing gaps, particularly in the data needed for external assessment.*